



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: November 15, 2000 REPORT NO. 00-224

ATTENTION: Honorable Mayor and City Council
Docket of November 20, 2000

SUBJECT: ENTERPRISE ZONE EXPANSION

REFERENCE: None.

SUMMARY

Issues -

- 1) Should the City Council authorize the Manager or his designee to file documents with the California Trade & Commerce Agency to expand the San Ysidro/Otay Mesa Enterprise Zone in accordance with regulations promulgated by the Trade & Commerce Agency pursuant to state law (AB 251 of 1989) to include commercial and industrial properties within the City of San Diego and the City of Chula Vista;
- 2) Should the City Council authorize the Manager or his designee to file documents with the Trade & Commerce Agency to expand the City's Targeted Employment Area (TEA) to include the City of Chula Vista's low and moderate income census tracts; and
- 3) Should the City Council direct the Manager to execute a Memorandum of Understanding with the City of Chula Vista (Attachment 1), subsequent to its execution by the City of Chula Vista, for the expansion and administration of the San Ysidro/Otay Mesa Enterprise Zone and the City's TEA?

Manager's Recommendation -

- 1) Authorize the Manager or his designee to file documents with the California Trade & Commerce Agency to expand the San Ysidro/Otay Mesa Enterprise Zone in accordance with regulations promulgated by the Trade & Commerce Agency pursuant to state law (AB 251 of 1989) to include commercial and industrial properties within the City of San Diego and the City of Chula Vista;

- 2) Direct the Manager or his designee to file documents with the Trade & Commerce Agency to expand the City's Targeted Employment Area (TEA) to include the City of Chula Vista's low and moderate income census tracts;
- 3) Direct the Manager to execute a Memorandum of Understanding with the City of Chula Vista (Attachment 1), subsequent to its execution by the City of Chula Vista, for the expansion and administration of the San Ysidro/Otay Mesa Enterprise Zone and the City's TEA.

Other Recommendations - None.

Fiscal Impact - If the San Ysidro/Otay Mesa Enterprise Zone is expanded as proposed, the City will receive annual funding as described in Attachment 2 (for the term of the state Enterprise Zone designation which expires in 2007) from the City of Chula Vista in accordance with the proposed MOU for: 1) an additional City staff person to assist with the additional administrative/reporting requirements and to provide services to businesses within the Enterprise Zone Program; and 2) to provide for additional marketing/promotional expenditures.

BACKGROUND

Enterprise Zones

An Enterprise Zone is a defined geographic area in which companies doing business within an Enterprise Zone can claim significant state income tax credits for qualifying employees and expenditures. Enterprise Zones were created in California to stimulate business investments in areas where investment has lagged and to make jobs available in areas of high unemployment. The state of California has designated 39 Enterprise Zones, two are in the City of San Diego: the Metropolitan Zone, designated in October 1986; and the San Ysidro/Otay Mesa Enterprise Zone, designated in January 1992 (Attachment 2). Each Enterprise Zone designation is for 15 years .

Businesses in Enterprise Zones can claim substantial state tax credits. Tax credits are subtracted directly from a business' tax liability, thus are far more valuable than tax deductions. Additionally, if a business' earned tax credits exceed taxes owed in any given year, unused credits can be carried forward to future tax years.

Tax credits can be claimed on:

- Wages paid to each new qualified employee in excess of \$26,800 over a five-year period.
- Up to \$1.35 million in sales tax credits per year for qualifying manufacturing equipment.

Additional benefits for Enterprise Zone businesses and their employees include:

- No-cost Job Referral Service available to Zone businesses.
- 100 percent net operating loss carry forward.
- Tax savings on loans to Enterprise Zone businesses.
- Tax savings for Enterprise Zone employees.
- Expedited plan/permit processing and possible development fee reductions/waivers.

Since the inception of the City's Enterprise Zone Program in 1986, over \$100 million in private sector capital investments have been made within the two Enterprise Zones. These capital investments in private property were made to redevelop existing commercial and industrial facilities and to develop new facilities. Thousands of low-income and unemployed people have been placed in jobs within the City's Enterprise Zones; more than half of these jobs went to residents of the two Enterprise Zones.

The Metro Zone's original designation was for 2,800 acres, while the San Ysidro/Otay Mesa Zone's designation was for 6,050 acres. State legislation allows for Enterprise Zones to expand to a maximum of 20% of the Zone's original area. Properties in expansion areas must be zoned commercial or industrial and be contiguous to the Enterprise Zone. Despite several expansions since the Zones were originally designated, each Zone currently has available expansion capacity.

The Metropolitan Zone has been expanded by 419 acres, leaving a current expansion capacity of 141 acres. The San Ysidro/Otay Mesa Zone has been expanded by 382 acres, with 827 acres of expansion capacity remaining. After reviewing anticipated future expansion needs for the San Ysidro/Otay Mesa Zone, staff has determined that only 250 acres of the available 827 acres will be needed to accommodate future expansion of the Zone. This determination leaves 577 acres of unusable expansion capacity which could be extended to benefit qualifying adjacent property within the City of Chula Vista and the Port of San Diego.

Targeted Employment Area

In 1998, the City of San Diego received designation approval from the Trade & Commerce Agency establishing a Targeted Employment Area (TEA) incorporating all of the low and moderate 1990 census tracts within the City's jurisdiction. TEA's are state designated areas that create incentives for Enterprise Zone businesses to hire TEA residents in order to receive state tax credits on the wages paid to these employees. An expansion of the TEA to include low and moderate census tracts within Chula Vista's jurisdiction would benefit businesses in the Zone and residents within San Diego and Chula Vista (Attachment 4).

DISCUSSION

In May of 2000, City of San Diego staff received a request from BF Goodrich to consider the possibility of expanding the boundaries of the San Ysidro/Otay Mesa Enterprise Zone to include the BF Goodrich facility located in the City of Chula Vista. Given anticipated levels of capital investment in qualifying manufacturing equipment, an Enterprise Zone designation would provide BF Goodrich with several million dollars worth of state income tax credits. At about the same time, the City of Chula Vista and the Port of San Diego also expressed interest in expanding the San Ysidro/Otay Mesa Enterprise Zone to include City of Chula Vista land including their two redevelopment areas west of Interstate 5.

Properties in the proposed Chula Vista expansion, as shown in Attachment 5, include the

following:

Chula Vista Capital	20.0 acres
Rohr/BF Goodrich	75.6 acres
Port Tidelands/Boatyard	161.2 acres
Port/Duke Energy	140.9 acres
Fairfield (Fenton)	56.4 acres
Raytheon	9.8 acres
Port/Pond 20 (San Diego)	100.0 acres
Proposed PG&E Power Plant	9.8 acres
Right-of-way Estimate	3.3 acres

TOTAL EXPANSION AREA 577.0 acres

Benefits to the City of Chula Vista

Chula Vista is not able to apply for its own Enterprise Zone designation as state legislation only allows for 39 Zones, all of which have already been designated throughout California. By utilizing the City's remaining expansion capacity in the San Ysidro/Otay Mesa Enterprise Zone, Chula Vista will be able to offer significant tax incentives to companies located within the expanded Enterprise Zone boundaries. The Enterprise Zone designation becomes an effective marketing tool for attracting new business investment into Chula Vista's two redevelopment areas which include the marina, the salt mines and the Duke Energy plant. Enterprise Zone incentives also encourage existing businesses to stay or expand within the area. BF Goodrich, for example, will gain substantial state income tax credits for paid sales taxes and qualifying employee wages by rebuilding/expanding their facility in Chula Vista. The proposed Enterprise Zone expansion will generate new tax revenue and create jobs for Chula Vista and the South Bay region.

Benefits to the City of San Diego

The Enterprise Zone Program provides the City with effective economic and employment development incentives to offer existing businesses within (or businesses considering locating, expanding or doing business within) the City's two enterprise zones. The City has utilized the Enterprise Zone to attract Fortune 500 companies such as Parker Hannifan, Matsushita/Panasonic, and Howard Leight Industries to the San Ysidro/Otay Mesa region. International companies such as Graphite Design International (Japanese), San Diego Coil Center (Japanese), and Hitachi Transport, have located or expanded their operations in Otay Mesa because of Enterprise Zone incentives. The Enterprise Zone Program has already created thousands of new jobs for residents of the South Bay and the larger San Diego region.

Recognizing that the City's Enterprise Zone Program has resource limitations and that additional administrative/reporting requirements will be created by the proposed Enterprise Zone expansion, the City of Chula Vista (in conjunction with the Port of San Diego) has offered to provide: 1) funding for an additional City staff person to provide services to businesses within the expanded Enterprise Zone and 2) marketing/promotional funds to augment expenditures

currently made by the City to promote the Enterprise Zone Program. These additional resources would enable the City to provide better services to businesses in both jurisdictions. City Economic Development Division staff have met with representatives from Chula Vista's Community and Economic Development Department to discuss and prepare a draft Memorandum of Understanding which details the proposed resource offer and establishes a framework for an effective working relationship between the agencies.

CONCLUSION

The proposed Enterprise Zone expansion would confer a significant economic/employment incentive program to the City of Chula Vista and its existing/prospective businesses. If approved, there may be instances where each agency pursues common business development interests. The attached Memorandum of Understanding establishes a cooperative framework for managing these situations and formalizes a financial commitment by the City of Chula Vista to support the City's expanded Enterprise Zone Program. Given the offer of needed financial support and the geographic/cultural connectivity of the area, City staff views this proposal as a unique opportunity for regional collaboration and the beginning of an economic development partnership.

ALTERNATIVE

Do not authorize the Manager to file documentation with the California Trade & Commerce Agency to expand the San Ysidro/Otay Mesa Enterprise Zone and Targeted Employment Area.

Respectfully submitted,

Hank Cunningham
Director
Economic Development and Community Services

Approved: George I. Loveland
Assistant City Manager

CUNNINGHAM/JSK/LAM

- Attachments:
1. MOU Between City of San Diego and City of Chula Vista
 2. City of Chula Vista Budget Contribution In Support of Enterprise Zone Program Expansion
 3. Map of Existing Enterprise Zone and TEA Boundaries
 4. Map of TEA Expansion Area
 5. Map of Enterprise Zone Expansion Area

Note: Attachments 3, 4, and 5 are not available in electronic format. Copies of the attachments are available for review in the Office of the City Clerk.